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December 17, 2004

BY ELECTRONIC FILING

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: Ex Parte Presentation in CC Dockets 96-45 and 01-92

Dear Ms. Dortch:

On Wednesday, December 15, 2004, Karen Puckett, President and COO of CenturyTel, Inc., Robert Currey, President and CEO of Consolidated Communications, Inc., Eugene Johnson, Chairman and CEO of FairPoint Communications, Inc. and James Barr III, President and CEO of TDS Telecom (together, the "Midsize Companies"), and I met with Commissioner Abernathy, Commissioner Martin and Dan Gonzalez, and on Thursday, December 16, 2004, Ms. Puckett, Mr. Currey, Mr. Barr and I met with Chairman Powell, Christopher Libertelli, Commissioner Adelstein and Scott Bergmann. The Midsize Companies described the importance to their businesses of resolving outstanding regulatory issues, and made the points noted in the enclosed materials, a copy of which was left behind in these meetings. Please contact me if you have any questions.

Very truly yours,



Karen Brinkmann

Enclosure

CC: Honorable Michael K. Powell, Chairman
Honorable Kathleen Q. Abernathy, Commissioner
Honorable Jonathan S. Adelstein, Commissioner
Honorable Kevin J. Martin, Commissioner
Christopher Libertelli, Senior Legal Advisor to Chairman Powell
Scott Bergmann, Legal Advisor to Commissioner Adelstein
Daniel Gonzalez, Legal Advisor to Commissioner Martin

RURAL REGULATORY REFORM PRINCIPLES: PERSPECTIVES AND RECOMMENDATIONS

Challenges and Opportunities

- ❖ Rural markets must enjoy the same access to new technologies and next-generation services as urban areas.
- ❖ Given increasing competition in rural areas, Universal Service and Inter-carrier Compensation reforms are key drivers for positive changes for rural telecommunications consumers.
- ❖ Rural consumers enjoy a choice of wireline, wireless, satellite, cable and IP technologies today.
- ❖ Carrier of Last Resort (COLR) obligations take on increasing importance in less dense rural areas. Competition does not guarantee universal service to all rural customers.
- ❖ Mid-Size and small ILECs offer the most immediate and substantial hope for rural consumers to benefit from new technologies, up-to-date communication platforms and video services.

Regulatory Reform Principles

- ❖ Rural regulatory reform must accommodate an escalating need from rural consumers for broadband access and advanced services capability.
- ❖ Rural regulatory reform must allow for continued innovation for rural customers by encouraging investment in new and existing networks and by recognizing the unique service characteristics of rural areas.
- ❖ Regulatory reform should strive for rational regulatory parity among providers, regardless of technology.
- ❖ Stability and predictability of regulatory rules are essential in making investment decisions.

Universal Service Principles

- ❖ Contribution Methodology
 - A new contribution methodology should not create market place advantages for any class of carrier, while creating sufficient resources to maintain sustainable universal service funding.
 - All technologies (including VoIP) benefit from ubiquitous connections and should contribute.
 - Funding must be sufficient, predictable and sustainable to promote the Nation's universal service goals.
- ❖ Disbursement of Funds
 - Universal service funding must be linked to COLR obligations in rural areas and must provide the resources necessary to serve all customers with service comparable in price and quality to urban areas. Capping funding levels is inconsistent with this goal. Disbursing funds to carriers refusing to meet COLR obligations is inconsistent with this goal.
 - Universal Service payments that are responsive to the cost of serving rural areas will encourage network investment and promote access to advanced services. Proxy models using forward-looking economic costs will not provide investment incentives in rural areas for rate-of-return companies.
 - Broadband access is quickly becoming the "standard." Universal service reform must ultimately promote "broadband-capable" networks in rural areas.
 - Universal Service funding must be predictable and reliable. A permanent change to the Anti-Deficiency Act is needed to ensure that support flows in a reliable manner.

RURAL REGULATORY REFORM PRINCIPLES: PERSPECTIVES AND RECOMMENDATIONS

Mid-Size Company Recommendations:

- ⇒ *Universal service funding must be responsive to the cost drivers of a broadband capable network.*
- ⇒ *ETC policies must be geared towards the goal of providing universal service, not the goal of promoting competition, and must be linked to COLR responsibilities.*
- ⇒ *The base of contributions must be broadened to maintain sufficient funding.*

Intercarrier Compensation Principles

- ❖ Rural carriers must be fairly compensated for the use of their networks by other carriers. This compensation provides an incentive to continue to invest in rural networks.
- ❖ Intercarrier compensation must evolve along with the movement from today's predominantly circuit switched network to tomorrow's packet switched network.
- ❖ Plans submitted to the FCC which deal with arbitrage and phantom traffic must be seriously considered, and the bias towards a "bill and keep" system for all should be set aside.

Mid-Size Company Recommendations

- ⇒ *Enforce "truth in labeling" such that carriers have the ability to charge for all intercarrier traffic.*
- ⇒ *Minimize arbitrage of intercarrier compensation.*
- ⇒ *Maintain appropriate network compensation in an IP environment.*
- ⇒ *Ensure that rates remain comparable and affordable to consumers.*

Broadband Access in Rural Areas

- ❖ Wireline carriers are uniquely suited to provide rapid broadband rollout in rural areas.
- ❖ Unpredictability in USF and intercarrier compensation inhibits investment in rural areas

Mid-size Companies' Public Policy Priorities

1. Broaden USF contribution base.
2. ETCs must have equal COLR obligations and receive funding based on their own costs.
3. Eliminate arbitrage and phantom traffic through enforcement of rules which allow carriers to collect payment for usage of their networks.